

CITY OF AVOCA

INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES

FOR THE PERIOD
JANUARY 1, 2002 THROUGH JUNE 15, 2009

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CITY OF AVOCA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Johnson	Mayor	January 2012
Fred Miller	Council Member	January 2012
Jennie Maassen	Council Member	January 2012
David McCain	Council Member	January 2010
Carol Kyle	Council Member	January 2010
Robert McCarthy	Council Member	January 2010
Clint Fichter	City Manager	Indefinite
Teresa Hoepner	City Clerk	Indefinite
Teresa Hoepner	Treasurer	Indefinite
David Larson	Attorney	Indefinite

CITY OF AVOCA

MUXFELDT **ASSOCIATES, CPA, P.C.**

Certified Public Accountant

August 25, 2009

Independent Accountant's Report on Applying Agreed Upon Procedures

Lonnie G. Muxfeldt
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Licensed In:

Iowa
Missouri

To the Honorable Mayor and
Members of the City Council

I have performed the following procedures, which were agreed to by the City of Avoca, solely to assist The City of Avoca in evaluating certain financial transactions of the Avoca Fire and Rescue and the Avoca Community Fire and Rescue Association (a component unit of the City of Avoca) for the period January 1, 2002 to June 15, 2009. The City of Avoca's management is responsible for the operating practices and procedures followed by the City. The agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures I performed were as follows:

1. Review supporting documentation for reimbursements made to Amy Hoffman, treasurer of Avoca Fire and Rescue and Avoca Community Fire and Rescue Association.
2. Review supporting documentation for cash with draws from the Avoca Fire and Rescue and Avoca Community Fire and Rescue Association bank accounts.
3. Review all Sam's Club charge card activity and sample transactions to determine if purchases made with the City's charge account were properly supported and met the public purpose test.
4. Examine payments to selected vendors used by Avoca Fire and Rescue and the Avoca Community Fire and Rescue Association from January 1, 2002 through June 15, 2009 for reasonableness.

continued. . .

August 25, 2009

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To the Honorable Mayor and
Members of the City Council

I was not engaged to and did not conduct an examination of the operations of the City of Avoca, the Avoca Fire and Rescue and the Avoca Community Fire and Rescue Association, the objective of which would be the expression of an opinion on the financial statements of the City of Avoca and its component units. Accordingly, I do not express such an opinion. Had I performed additional procedures, or had I performed an audit of the financial statements of the City of Avoca and its component units, other matters might have come to my attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Avoca and other parties to whom the City of Avoca may report. This report is not intended and should not be used by anyone other than these specified parties.

I would like to acknowledge the assistance extended to me by personnel of the City of Avoca, the Avoca Fire and Rescue and the Avoca Community Fire and Rescue Association. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Mufflet Associates, CPA, P.C.

DETAILED RECOMMENDATIONS

CITY OF AVOCA

DETAILED RECOMMENDATIONS JANUARY 1, 2002 THROUGH JUNE 15, 2009

(A) Segregation of Duties

Comment - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal, check writing, mailing and posting, payroll preparation and distribution, utility billing collecting, depositing and posting, investing and record keeping are all done by one or two individuals.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this and make appropriate changes to improve internal controls.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

(B) Reconciliation of Cash Transactions

Comment - Cash transactions have not been reconciled. Unreconciled cash transactions totaled \$7,836 for the period covered.

Recommendation - The City should establish accounting procedures to reconcile the cash transactions used for fundraising activities of the City, the Avoca Fire and Rescue and the Avoca Community Fire and Rescue Association. An independent person designated by the City Council should review and monitor these reconciliations.

Response - We will establish such procedures and are in the process of taking control of the financial activities of the Avoca Community Fire and Rescue Association.

Conclusion - Response accepted.

continued. . .

CITY OF AVOCA
DETAILED RECOMMENDATIONS
JANUARY 1, 2002 THROUGH JUNE 15, 2009

(C) Maintenance of Charge Card Transactions

Comment - Activity on the City's Sam's Club charge account was not adequately monitored for appropriate usage and for public purpose.

Recommendation - The City should establish accounting procedures to monitor the use of the City's Sam's Club charge account and limit the number of users of such account along with setting guidelines as to the type of transactions that the account can be used for.

Response - We will establish such procedures and more closely monitor the activity and users of the account.

Conclusion - Response accepted.

(D) Travel Reimbursement

Comment - There were several instances where fuel was purchased in Council Bluffs, IA on the City's Sam's Club charge account and one instance where fuel was purchased in Oakland, IA, one instance where fuel was purchased in Treynor, IA by a debit card transaction on the Avoca Community Fire and Rescue Association account and three instances of purchases of fuel in Council Bluffs, IA by debit card as reimbursement for travel expenses for the use of personal vehicles for City business.

Recommendation - The City should establish and enforce procedures for documented mileage reimbursement for the use of non City owned vehicle travel at reimbursable rates set by the City Council instead of allowing for the filling of personal vehicles with fuel.

Response - We have established such procedures.

Conclusion - Response accepted.

continued. . .

CITY OF AVOCA

DETAILED RECOMMENDATIONS JANUARY 1, 2002 THROUGH JUNE 15, 2009

(E) Electronic Check Retention

Comment - Chapter 554D.114 of the Code of Iowa allows for the retainage of cancelled checks in an electronic format. The Code of Iowa requires the electronic retention of cancelled checks in this manner to include an image of the front and back of each cancelled check. The City and Avoca Fire and Rescue retain cancelled checks through electronic image, but do not obtain an image of the back of each cancelled check as required by Iowa Code 554D.114. The Avoca Community Fire and Rescue Association (a component unit) does not retain an image of the front or the back of the check as required by Iowa Code 554D.114.

Recommendation - The City and the Component Units of the City should comply with Code of Iowa 554D.114 and retain an electronic image of both the front and back as required.

Response - We have contacted our bank and have since received images of both the front and back of all cancelled checks for the City and the Association will contact the bank to receive the images of the front and back of the checks as required.

Conclusion - Response accepted.

continued. . .

CITY OF AVOCA
DETAILED RECOMMENDATIONS
JANUARY 1, 2002 THROUGH JUNE 15, 2009

(F) Questionable Disbursements

Comment - Disbursements I believe may not meet the requirements of public purpose as defined by an Attorney General's opinion dated April 25, 1979 were noted, as follows:

Avoca Fire and Rescue Account

Date	Paid To	Purpose	Amount
1/11/03	The Feedlot	Appreciation Dinner	\$ 641.95
1/31/04	The Feedlot	Appreciation Dinner	601.92
2/26/05	Minden Bowl	Appreciation Dinner	567.30
1/26/06	Minden Bowl	Appreciation Dinner	600.67
			<u>\$ 2,411.84</u>

Avoca Community Fire and Rescue Association

Date	Paid To	Purpose	Amount
8/15/07	Wal Mart Store	Tylenol Sinus Medication	\$ 14.54
3/1/08	Gurney's	Appreciation Dinner	443.28
			<u>\$ 457.82</u>

City of Avoca - Fire and Rescue Department Fund

Date	Paid To	Purpose	Amount
2002-2003	Sam's Club	Supplies*	\$ 174.64
2003-2004	Sam's Club	Supplies*	731.32
2004-2005	Sam's Club	Supplies*	685.58
2005-2006	Sam's Club	Supplies*	685.54
2006-2007	Sam's Club	Supplies*	1,519.00
2007-2008	Sam's Club	Supplies*	542.07
			<u>\$ 4,338.15</u>

Supplies*--Include but are not inclusive, pop, beer, other drinks and food items.
continued. . .

CITY OF AVOCA
DETAILED RECOMMENDATIONS
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(F) Questionable Disbursements (continued)

According to the opinion dated April 25, 1979, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such disbursements will be closely scrutinized. There is a thin line between what is proper and what is improper.

Recommendation - The City should determine and document the public purpose served by these disbursements before authorizing any further payments for such items. The City should establish written policies and procedures including the requirements for documentation and authorization.

Response - We will monitor such activity and establish policies and procedures to document such transactions.

Conclusion - Response accepted.

(G) Unsubstantiated Disbursements

Comment - During my analysis of the agreed upon procedures, I found numerous disbursements that did not have invoices to substantiate the expenditure. The Avoca Fire and Rescue account had unsubstantiated transactions totaling \$4,953, the Avoca Community Fire and Rescue Association had unsubstantiated transactions totaling \$2,933 and \$180 in the City of Avoca-Fire Department Fund Account.

Recommendation - The City and the Component Units of the City should retain all invoices as proof of a valid expenditure and for validation purposes.

Response - We will retain appropriate copies of all invoices in the future.

Conclusion - Response accepted.

continued. . .

CITY OF AVOCA

DETAILED RECOMMENDATIONS JANUARY 1, 2002 THROUGH JUNE 15, 2009

(H) Questionable Reimbursements

Comment - During my analysis of the agreed upon procedures, I found three instances where expense reimbursements were reimbursed to Amy or David Hoffmann from the City's component unit accounts and also from the City's Fire & Rescue Fund Account and one instance of erroneous travel reimbursement as follows:

Date	Account Paid From	Check #	Paid To	Amount
1/31/04	Avoca Fire & Rescue	1502	David Hoffmann	\$ 231.49
2/02/04	City of Avoca Warrant	11827	Amy Hoffmann	\$ 231.49

For reimbursement of items purchased at Sam's Club. No evidence of a reimbursement from the Hoffmann's for the duplicate payment.

Date	Account Paid From	Check #	Paid To	Amount
5/21/08	City of Avoca Warrant	18215	Money Order	\$ 30.00
5/27/08	City of Avoca Warrant	18032	Amy Hoffmann	\$ 30.00

The money order was to pay for EMT certification fee for Amy Hoffmann and the reimbursement to Amy Hoffmann was also for the same EMT certification fee. No evidence of a reimbursement from Amy Hoffmann for the duplicate payment.

Date	Account Paid From	Check #	Paid To	Amount
6/16/08	Avoca Comm. Fire & Rescue Association	Debit Card	Applebee's-- Ft. Dodge	\$ 41.00
6/16/08	Avoca Comm. Fire & Rescue Association	Debit Card	The Cellar --Ft. Dodge	\$ 60.28
6/16/08	Avoca Comm. Fire & Rescue Association	Debit Card	AmericInn -- Ft. Dodge	\$ 100.69
6/24/08	City of Avoca Warrant	18204	Amy Hoffmann	\$ 41.00
6/24/08	City of Avoca Warrant	18204	Amy Hoffmann	\$ *61.28
6/24/09	City of Avoca Warrant	18204	Amy Hoffmann	\$ 100.69

*Addition error on expense report turned in for \$1.00. The correct total is \$60.28. No evidence of a reimbursement from Amy Hoffmann for the duplicate payment.

continued. . .

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DETAILED RECOMMENDATIONS
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(H) Questionable Reimbursements (continued)

On June 13, 2008 there was a fuel ticket for fuel purchased at a local convenience store for \$51.50 for a City owned vehicle #1190 and signed by Wendy Nevins, who was the other EMS participant in this training class. On June 24, 2008, an expense voucher was remitted to the City Clerk for reimbursement for mileage to Ft. Dodge and back to Avoca for \$129.79 and a City of Avoca Warrant #18204 was issued to Amy Hoffmann for this reimbursement. It appears that a City owned vehicle #1190 was used for this travel and an erroneous expense reimbursement for personal use of a vehicle was also remitted and paid to Amy Hoffmann.

Recommendation - The City should set policies and procedures to closely monitor expense reimbursements and take over management of the Component Units financial records, which would give another layer of monitoring of such expenditures.

Response - We will monitor these transactions more closely in the future.

Conclusion - Response accepted.

(I) Personal Purchases

Comment - There were several instances where personal items were purchased on the City's Sam's Club charge account. These items were reimbursed to the City by the persons who purchase the personal items.

Recommendation - While this does not constitute illegal or inappropriate activity, it is advisable that the City establish policies and procedures as to who and for what the Sam's Club charge account can be used for.

Response - We will establish such procedures.

Conclusion - Response accepted.

continued. . .

CITY OF AVOCA

DETAILED RECOMMENDATIONS
JANUARY 1, 2002 THROUGH JUNE 15, 2009

(J) Component Unit

Comment - The Avoca Community Fire and Rescue Association (the Association) maintains separate accounting records and is under the control of a separate Board of Directors not under the control of the City of Avoca. By definition, the Association is considered a “Component Unit” of the City of Avoca. The Avoca Fire and Rescue account was closed in June of 2006 and the balance transferred to the City of Avoca’s Fire Department Fund.

Recommendation - Chapter 384.20 of the Code of Iowa states in part “A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” Since the funds raised by the Association are used solely for the purpose of supporting the City’s Fire and Rescue department, it is deemed to be public funds therefore accountable by the City. For better accountability, financial and budgetary control, the financial activity and balances of the Association should be included in the City’s accounting records and reported to the Council for approval on a monthly basis. To substantiate the record keeping function, the financial records and all bank accounts should be turned over to the City and be placed under the control of the City Clerk.

Response - The City will take this under advisement.

Conclusion - Response accepted.

CITY OF AVOCA

AVOCA, IA 51521

NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an agreed upon procedures report on the City of Avoca, Iowa for the period January 1, 2002 through June 15, 2009. The agreed upon procedures were performed at the request of the City Council.

Muxfeldt Associates, CPA, P.C. recommended the City establish segregation of duties over cash, cash receipts, disbursements, utility billing and payroll. Muxfeldt Associates, CPA, P.C. also recommended the City establish procedures to reconcile cash transactions, charge card transactions and travel reimbursements, comply with electronic check retention, retain paid invoices, determine and document public purpose for certain disbursements, use of charge card for personal purchases, monitor expense reimbursements and report a Component Unit in the City's financial reports. The City's responses are included in the report.

A copy of the report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.